

**STATE OF NORTH DAKOTA**  
**BISMARCK, NORTH DAKOTA**

**REPORT OF EXAMINATION**  
**OF**  
**GENESIS INDEMNITY INSURANCE COMPANY**  
**STAMFORD, CONNECTICUT**

**AS OF**  
**DECEMBER 31, 1999**

STATE OF NORTH DAKOTA  
DEPARTMENT OF INSURANCE

I, the undersigned, Commissioner of Insurance of the State of North Dakota do hereby certify that I have compared the annexed copy of the Report of Examination of the

**Genesis Indemnity Insurance Company**

**Stamford, Connecticut**

as of December 31, 1999, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.

IN WITNESS WHEREOF, I have hereunto  
set my hand and affixed my official  
seal at my office in the City of  
Bismarck, this \_\_\_\_\_ day of  
\_\_\_\_\_, 2001.

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Jim Poolman  
Commissioner of Insurance

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Stamford, Connecticut  
February 20, 2001

Honorable Alfred W. Gross  
Chair, Financial Condition Committee  
Subcommittee, NAIC  
Commissioner  
Bureau of Insurance  
Commonwealth of Virginia  
Richmond, VA 23218

Nathaniel S. Shapo  
Chair, Midwestern Zone  
Director  
Illinois Department of Insurance  
320 West Washington Street, 4<sup>th</sup> Floor  
Springfield, IL 62767

Honorable Jim Poolman  
Commissioner of Insurance  
State of North Dakota  
600 East Boulevard Avenue  
Bismarck, ND 58505

Dear Sirs:

Pursuant to your instructions and statutory requirements, a financial examination has been made of the book, records, and financial condition of

**Genesis Indemnity Insurance Company  
Stamford, Connecticut**

Genesis Indemnity Insurance Company, hereinafter referred to as the "Company" was last examined as of December 31, 1994, by the North Dakota Insurance Department.

**SCOPE OF EXAMINATION**

This examination was a financial condition examination conducted in accordance with N.D. Cent. Code § 26.1-03-19.3 and observed guidelines and procedures contained in the NAIC *Financial Condition Examiners Handbook*. The examination was conducted to determine the Company's financial condition, its compliance with statutes, and to review the corporate affairs and insurance operations. This statutory examination covers the period from January 1, 1995, to and including December 31, 1999, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

Work papers provided by the Company's independent auditor, Deloitte & Touche, L.L.P., were reviewed and where deemed appropriate certain procedures and conclusions documented in those work papers have been relied upon and copied for inclusion into the working papers for this examination.

All recommendations made in the prior statutory examination report have been adequately addressed by the Company with the following exceptions:

<b>Recommendation</b>	<b>Action by the Company</b>
It is recommended that the Company maintain detailed listings for paid losses.	The Company maintained statistical records for paid losses; however, the total of those records did not agree with the amount reported in Schedule P of the 1999 Annual Statement.
It is recommended that the Company and its affiliates establish procedures to insure that the reinsurance balances and transactions reported by the Company in Schedule F agree with the amounts reported by affiliates.	The December 31, 1999, reinsurance credits taken by the Company for unpaid losses and unearned premiums did not agree with amounts reported by General Reinsurance Corporation.

This examination was conducted by Examiners from the North Dakota Insurance Department, representing the Midwestern Zone.

## **HISTORY**

### **General**

The Company was incorporated on September 27, 1989, under the laws of the State of North Dakota. The Company's primary purpose is to engage in the business of property and casualty insurance. The Company is a wholly-owned subsidiary of Berkshire Hathaway, Inc.

### **Capital Stock**

The Company's Articles of Incorporation authorize the Company to issue 1,000 shares of common capital stock with a par value of \$4,100 per share. At December 31, 1999, the Company had issued all 1,000 shares to its parent, General Reinsurance Corporation.

### **Dividends to Stockholders**

The Company paid the following dividends to General Reinsurance Corporation during the period under examination:

1996 - \$3,516,100  
1997 - \$3,469,868

### **Board of Directors**

The Bylaws provide that the number of directors shall be established by the Board of Directors or by action of the stockholders but shall not be less than seven. Directors shall be elected at the Annual Meeting of the stockholders and each director shall serve until his successor is elected and qualified.

Directors serving at December 31, 1999, were as follows:

<u>Name and Address</u>	<u>Business Affiliations</u>
Harry L. Richter, Jr. Radnor, PA	Chairman of the Board and President Genesis Underwriting Management Company
G. Roger Greiner Stamford, CT	President Genesis Indemnity Insurance Company
Ronald Ferguson Fairfield, CT	Chairman and Chief Executive Officer General Re Corporation
Barry M. Anderson Trumbull, CT	Senior Vice President Genesis Underwriting Management
Franklin Montross, IV Bedford Hills, NY	Senior Vice President General Reinsurance Corporation
Joseph P. Brandon Weston, CT	Senior Vice President and Chief Financial Officer General Reinsurance Corporation
Charles F. Barr Ridgefield, CT	Vice President, Secretary and General Counsel General Reinsurance Corporation

## **Officers**

The Bylaws provide that the elected officers of the Company shall be a Chairman of the Board, a President, a Vice President, a Treasurer, and a Secretary. Officers serving at December 31, 1999, were as follows:

<u>Officer</u>	<u>Title</u>
Harry L. Richter, Jr.	Chairman of the Board
G. Roger Greiner	President
Elizabeth A. Monrad	Treasurer
Richard G. McCarty	Vice President and Secretary
James A. Sabella	Assistant Treasurer

## **Conflict of Interest**

The companies of the General Re Group have developed a Code of Business Conduct as a reference guide to help personnel define and understand appropriate standards of business conduct and to establish compliance requirements. The companies have also established procedures for the disclosure of possible conflicts of interest. Once a year, all directors, officers, and key employees are asked to complete and sign a conflict of interest questionnaire. The signed questionnaires are reviewed by the Legal Department and Internal Audit Department and the results are reported to General Re Corporation's Audit Committee. The conflict of interest statements were reviewed and no differences were noted.

## **Corporate Records**

There were no amendments to the Bylaws or Articles of Incorporation during the period under examination.

## **Board of Directors and Stockholders**

The minutes of the Board of Directors and stockholder for the period under examination were read.

The minutes of the various meetings indicate that meetings were well attended and held in accordance with the Bylaws. The deliberations of the bodies were adequately documented.

# **AFFILIATED COMPANIES**

## **General**

The Company is wholly owned by General Reinsurance Corporation, a Delaware corporation. Berkshire Hathaway, Inc., became the Company's ultimate parent through a plan of merger completed December 21, 1998, with General Re Corporation. The holding company structure as of December 31, 1999, is depicted in the following chart:

	<b><u>Domicile</u></b>
Berkshire Hathaway Inc. (31.2% owned by Warren E. Buffett)	DE
General Re Corporation	DE
General Reinsurance Corporation	DE
Genesis Indemnity Insurance Company	ND
Genesis Insurance Company	CT
Genesis Underwriting Management Company	DE
Insurance Management Services, Inc.	CT
General Star Indemnity Company	CT
General Star International Indemnity Ltd.	UK
General Star National Insurance Company	OH
General and Cologne Reinsurance Australasia Ltd.	Australia
General Re Holdings, Inc.	DE
Reinsurance Underwriting Services, Ltd.	UK
General Re Europe Limited	UK

General Re Compania de Reasegueros, S.A.	Uruguay
General & Cologne Re (sur) Compania de Reasegueros, S.A.	Argentina
National Re Corporation	DE
National Reinsurance Corporation	DE
Fairfield Insurance Company	CT
Red Elm, LLC	DE
RIC Corporation of Delaware	DE
North Star Reinsurance Corporation	DE
United States Aviation Underwriters, Inc.	NY
North Star Syndicate, Ltd.	DE
Herbert Clough, Inc.	NY
General Re Services Corporation	DE
General Re Financial Products (Japan) Inc.	DE
DP Mann Holdings Limited	UK
DP Mann Limited	UK
DP Mann Insurance Services Limited	UK
DP Mann Capital Limited	UK
DP Mann Corporate Name Limited	UK
GRD Corporation	DE
General Re Financial Products Corp.	DE
General Re (Bermuda) Ltd.	Bermuda
General Re Financial Securities Ltd.	UK
GRD Global, Inc.	DE
General Re Investment Holdings Corporation	DE
General Re Corporate Finance, Inc.	DE
General Re Funding Corporation	DE
General Re Securities Corporation	DE
General Re-CKAG Reinsurance and Investment S.A.R.L. (1)	Luxembourg
Kolnische Ruckversicherungs-Gesellschaft AG (1)	Germany
Cologne Holding Co. of America	CT
General & Cologne Life Re (Barbados) Ltd. (1)	Barbados
Cologne Reinsurance Company of America	CT
General & Cologne Life Re of America	CT
Cologne Life Underwriting Management Company	CT
IdeaLife Insurance Company	CT
Europa Ruckversicherung AG (1)	Germany
Kolnische Versicherungs-Beratungs-und Service GmbH	Germany
The Cologne Reinsurance Company Ltd.	UK
Cologne Reinsurance Company Ltd. (2)	Ireland
General & Cologne Re (Bermuda) Ltd.	Bermuda
General & Cologne Re (Barbados) Ltd. (1)	Barbados
The Cologne & General Re Africa Ltd. (2)	South Africa
General & Cologne Life Re Australasia Ltd. (2)	Australia
Kolnische Ruck Wien	Austria
General & Cologne Life Re UK Ltd.	UK
Jordan's Furniture, Inc.	MA
OBH Inc.	DE
BH Columbia Inc.	NE
Columbia Insurance Company	NE
BH Finance, LLC	NE
BHSF Inc.	DE
The Scott Fetzer Company	DE



Scott Fetzer Financial Group, Inc.	DE
Berkshire Hathaway Credit Corporation	NE
Blue Chip Stamps	CA
Wesco Financial Corporation (2)	DE
Wesco Holdings Midwest, Inc.	NE
Wesco-Financial Insurance Company (3)	NE
Kansas Bankers Surety Company	KS
Brookwood Insurance Company	IA
Central States of Omaha Companies, Inc. (2)	NE
Central States Indemnity Co. of Omaha	NE
Aksarben Life Insurance Company	AZ
Cypress Insurance Company	CA
Dexter Shoe Company	ME
Executive Jet, Inc.	DE
The Fechheimer Brothers Company (2)	DE
FlightSafety International Inc.	NY
Helzberg Diamond Shops, Inc	MO
H.H. Brown Shoe Company, Inc.	DE
International Dairy Queen, Inc.	DE
National Fire & Marine Insurance Company	NE
First Berkshire Properties, LLC	NE
Second Berkshire Properties, LLC	NE
Redwood Fire & Casualty Insurance Company	NE
Third Berkshire Properties, LLC	NE
National Indemnity Company *	NE
Berkshire Hathaway International Ins. Limited	UK
Berkshire Hathaway Life Ins. Co. of Nebraska	NE
BHG Life Ins. Co.	NE
Cornhusker Casualty Company	NE
Oak River Insurance Company	NE
Continental Divide Insurance Company	CO
GEICO Corporation (4)	DE
GEICO Indemnity Company	MD
GEICO Casualty Company	MD
Government Employees Insurance Company	MD
GEICO General Insurance Co.	MD
Insurance Counselors of Kentucky, Inc.	KY
Insurance Counselors of Nevada, Inc.	NV
Insurance Counselors, Inc.	MD
National Indemnity Company of the South	FL
National Indemnity Company of Mid-America	MN
National Liability & Fire Ins. Co.	CT
Nebraska Furniture Mart, Inc. (2)	NE
OCSAP, Ltd.	ME
R.C. Wiley Home Furnishings	UT

\* National Indemnity Company is the largest affiliated insurer  
Only non-insurers whose assets exceed ½ of 1% of the total assets of National Indemnity Company are listed.

(1) Less than 80% ownership

- (2) More than 80% ownership but less than 100%
- (3) 50% owned by Wesco Financial Corporation and 50% owned by Wesco Holdings Midwest, Inc.
- (4) 78% owned by National Indemnity Company and 22% owned by other insurance affiliates

## **INTERCOMPANY AGREEMENTS**

### **Underwriting Management Agreement**

Effective November 16, 1989, the Company entered into an underwriting management agreement with Genesis Underwriting Management Company (GUMC), an affiliate with whom the Company shares a common board and officers. A summary of the agreement follows:

- GUMC shall manage the underwriting activities of the Company as they pertain to underwriting the lines of insurance and reinsurance. GUMC agrees to (a) develop sources of production of contracts of insurance and reinsurance for the Company and appoint agents and brokers as needed, (b) underwrite risks submitted by these sources of business, (c) issue the insurance and reinsurance policies and contracts, (d) receive premium due the Company, (e) effect compliance with all applicable laws and regulations, (f) reinsure the risks underwritten when authorized by the Company, and (g) process notices of claims including the establishment of claim reserves.
- All expenses incurred by either on behalf of the other party shall be apportioned and reimbursed as provided in the applicable expense and tax allocation agreements.
- The agreement shall begin on November 16, 1989, and expire on December 31, 1989, and shall automatically renew itself for successive one year terms provided that either party may terminate the agreement at any time on thirty days prior written notice to the other party.

### **Administrative Agreement**

The Company and General Re Corporation entered into an administrative agreement effective September 27, 1989, covering departmental expenses such as corporate administration, investment, underwriting services, legal, and data processing. The agreement provides that the parties shall submit a statement of apportioned expenses within 45 days of the end of each fiscal year.

Expenses incurred by the Company under the above agreements in 1999 were \$1,391,694.

### **Consolidated Federal Income Tax Allocation Agreement**

The Company and the other entities of the General Re Group holding company system were participants in an agreement dated September 27, 1989, for the allocation of liability due to the consolidated federal income tax return of the General Re Group of companies.

The agreement provides for the total tax liability to be apportioned among members of the group by applying the appropriate current tax rate following the determination of the separate current taxable income or loss for each member of the group. Should the total of the separate tax charges or credits not equal the consolidated tax, any adjustment necessary will be borne by General Re Corporation.

### **Holding Company Transactions**

N.D. Cent. Code § 26.1-10-05(2) sets reporting standards for transactions involving a domestic insurance company and any person in its holding company system. Those standards require the domestic insurance company to notify the Insurance Commissioner in writing of its intention to enter into the transaction at least 30 days prior to entering into such arrangements. The Company did not comply with this 30-day notification requirement prior to entering into reinsurance agreements dated May 1, 1998, and January 1, 1999, with its parent, General Reinsurance Corporation.

**It is recommended that the Company submit proposed reinsurance agreements with affiliates to the Commissioner at least 30 days prior to entering into such agreements in compliance with N.D. Cent. Code § 26.1-10-05(2).**

## **FIDELITY BOND AND OTHER INSURANCE**

The Company is a named insured on a fidelity bond issued to its ultimate parent, General Re Corporation. Other affiliated and non-insurance companies are also named insureds on the bond which provides coverage in the amount of \$15,000,000. The coverage meets the minimum amount of fidelity bond coverage recommended by the National Association of Insurance Commissioners for the Company and the insurance subsidiaries. Other insurance coverage covering the Company appeared adequate.

## **PENSION AND INSURANCE PLANS**

All qualified full-time employees are provided with life insurance, accidental death and dismemberment, long-term disability, and comprehensive medical expense benefits.

### **Employee Retirement Plans**

The Company participates in General Re Group's (General Re Corporation and its subsidiaries) tax qualified non-contributory pension plan covering substantially all of the Company's United States employees. General Re Group's funding policy is to contribute the net periodic pension cost accrued each year. If necessary, funding is adjusted so that the final amount is not less than the minimum required or more than the maximum deductible limit. Each subsidiary is charged for its allocable share of such contributions based on a percentage of payroll.

### **Deferred Compensation Plans**

The Company participates in General Re Corporation's Long-Term Compensation Plan, under which restricted stock, stock options, and performance bonuses have been granted to key executive and managerial employees. The Company also participates in the General Re Corporation Employee Savings and Stock Ownership Plan and Annual Incentive Plan under which it makes contributions.

### **Post Retirement Benefit Plans**

The Company participates in the General Re Group Medical/Dental Expense Plan. Substantially all of the General Re Group's United States employees will become eligible for certain health care and group life insurance benefits upon retirement from the Company. General Re Group funds the benefit costs of current retirees, with the retiree paying a portion of the costs. The retiree's portion of the costs varies depending upon the individual's length of service with the General Re Group upon retirement. The expenses of these plans are charged to or by affiliates in accordance with an intercompany cost sharing arrangement.

## **STATUTORY DEPOSITS**

The Company maintained the following deposits at December 31, 1999:

<b>Location</b>	<b>Type of Asset</b>	<b>Statement Value</b>	<b>Market Value</b>
Arkansas	Bond	\$204,416	\$205,426
Kentucky	Bond	271,731	284,676
Massachusetts	Bond	694,885	732,802
New Mexico	Bond	100,080	100,239
New York	Bond	1,073,182	1,078,487
Oklahoma	Bond	90,577	94,892
South Carolina	Bond	150,172	130,566
North Dakota **	Bond	3,722,078	3,803,877

\*\* Held for benefit of all policyholders.

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

At December 31, 1999, the Company was licensed only in the State of North Dakota. The Company writes excess and large deductible insurance coverages for individual and group policyholders on a surplus lines basis.

During the course of this examination, a review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to policyholders and claimants. This review was general in nature and substantially less in scope than a full scope

market conduct examination.

No exceptions were noted.

### **Third-Party Administrators**

Under an Insurance Services Agreement with the Company, Cover X Corporation provides policy issuance and other administrative services for certain general liability business written on Company paper. The Company cedes 100% of this business to General Reinsurance Corporation, who then retrocedes 95.1% of the business to First Mercury Insurance Company, an Illinois domiciled insurer. First Mercury Insurance Company adjusts and settles claims for this business pursuant to a Claims Services Agreement with the Company. Cover X Corporation and First Mercury Insurance Company are affiliated entities and are deemed to be third party administrators of the Company. The amount of premiums written under this third party arrangement in 1999 was \$11,195,000.

Under an Insurance Services Agreement and a separate Claims Services Agreement with the Company, Colorado Western Insurance Company, a Colorado domiciled insurer, provides policy issuance and administrative services, claims adjustment services, and claims settlement services for certain casualty and inland marine business written on Company paper. The Company cedes 100% of this business to General Reinsurance Corporation, who then retrocedes 100% of the business to Colorado Western Insurance Company. Colorado Western Insurance Company is deemed to be a third-party administrator of the Company. The amount of premiums written and ceded under this third-party arrangement in 1999 was \$2,418,000.

The Company did not disclose premiums written through third-party administrators in Note 25 in the Notes to Financial Statements as required by the NAIC's *Annual Statement Instructions*.

**It is recommended that the Company properly disclose direct premiums written through third-party administrators in the Notes to the Financial Statements.**

## **REINSURANCE**

A review of the reinsurance ceded at December 31, 1999, and the basic coverage in force was as follows:

1.     Type:                   Excess of Loss

Reinsurer:               General Reinsurance Corporation

Scope:                   Casualty and Property Business

Coverage:                \$900,000 excess of \$100,000

Premium:                35% of earned premium amount of insurance written by Company for same risk.

Commissions:            25%

Effective Date:         January 1, 1995

Termination:            Either party upon 90 days written notice
2.     Type:                   Excess of Loss

Reinsurer:               General Reinsurance Corporation

Scope:                   Casualty Business

Coverage:                \$24,000,000 excess of \$1,000,000

Premium:                22% of earned premium amount of insurance written by Company for same risk.

Commissions:            27.5%

Effective Date:         July 1, 1996

Termination:            Either party upon 90 days written notice
3.     Type:                   Surplus Share

Reinsurer:               General Reinsurance Corporation

Scope:                   Property business shall mean fire, allied lines, inland marine and commercial multiple peril.

Coverage:	<u>Amount of Insurance Written</u>	<u>Company's Share</u>	<u>Reinsurer's Share</u>
Line Guide A	\$0 - \$1,000,000 \$1,000,000 to \$10,000,000	Entire Amount \$1,000,000	Nil Remainder not to exceed \$9,000,000
Line Guide B	\$0 - \$750,000 \$750,000 to \$7,500,000	Entire Amount \$750,000	Nil Remainder not to exceed \$6,750,000
Line Guide C	\$0 - \$500,000 \$500,000 to \$5,000,000	Entire Amount \$500,000	Nil Remainder not to exceed \$4,500,000
Line Guide D	\$0 - \$250,000 \$250,000 to \$2,500,000	Entire Amount \$250,000	Nil Remainder not to exceed \$2,250,000
Premium:	The reinsurance premium shall be the proportion of the written premium for each risk that the amount of surplus share reinsurance bears to the amount of insurance written by Company for same risk.		
Effective Date:	July 26, 1990		
Commissions:	12.5% up to 22.5%		
Termination:	Either party may cancel by providing not less than 90 days notice.		

The Company uses facultative arrangements with General Reinsurance Corporation to cede 100% of the amount it retains under Line Guides A, B, C, and D.

4. Type: Quota Share
- Reinsurers: Various, all licensed or accredited
- Scope:
- (a) Directors and Officers Liability Insurance Policies covering defined securities and other D&O risks for companies conducting public securities offerings.
  - (b) Entity Coverage for Prospectus Liability covering defined securities risks for companies conducting initial or subsequent public securities offerings of debt or equity.
  - (c) Directors and Officers/Entity coverage for Prospectus Liability and Open Market Securities Policies.
  - (d) Employment Practices Liability Insurance Policies.

- |                 |  |
|-----------------|--|
| Coverage:       | Cover A: 100% of the amount of net loss sustained by the Company with respect to each claim under each policy, but not exceeding the Limit of Liability of the Reinsurer of 100% of \$5,000,000 in the aggregate each policy year.   |
|                 | Cover B: 100% of the amount of net loss sustained by the Company with respect to each claim under each policy in excess of the first \$5,000,000 in the aggregate each policy year under each policy, but not exceeding the Limit of Liability of the Reinsurer of 100% of \$20,000,000 in the aggregate each policy year. |
| Premium:        | 100%   |
| Commissions:    | 32.5%  |
| Effective Date: | January 1, 1994  |
| Termination:    | Either party may cancel on any September 1 by providing not less than 90 days written notice.  |
5. Type: Excess of Loss & Quota Share
- Reinsurer: General Reinsurance Corporation
- Scope: General liability business written through third-party administrator, Cover X Corporation
- Coverage: 100%
- Premium: 100%
- Commissions: 35.5%
- Effective Date: May 1, 1998
- Termination: Either party upon 90 days written notice
6. Type: Excess of Loss & Quota Share
- Reinsurer: General Reinsurance Corporation
- Scope: Casualty and inland marine written through third-party administrator, Colorado Western Insurance Company
- Coverage: 100%
- Premium: 100%
- Commissions: 36.5%



Effective Date: January 1, 1999

Termination: Either party upon 90 days written notice

All treaties contained an insolvency clause required by N.D. Cent. Code § 26.1-02-21.

At December 31, 1999, the reinsurance credits taken by the Company for unpaid losses and unearned premiums did not agree with the assumed payables reported by the Company's parent, General Reinsurance Corporation, in its 1999 Annual Statement. **It is again recommended that the Company and its affiliates establish procedures to insure that the reinsurance balances and transactions reported by the Company in Schedule F agree with the amounts reported by affiliates.**

## **ACCOUNTS AND RECORDS**

The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the course of the examination and a trial balance as of December 31, 1999, was extracted from the general ledger and traced to the appropriate schedules of the Company's 1999 Annual Statement. The Company's ledgers are maintained electronically. Revenues and expenses were test checked to the extent deemed necessary.

The Company is audited annually by an outside firm of independent certified public accountants. The work papers of this firm were made available to the Examiners and were used to the extent deemed appropriate for this examination.

The Examiners experienced some delays in accessing certain of the Company's records, notably the data files supporting unearned premiums and Schedule P and were compelled to make second and third requests for some records.

The Examiners requested loss statistical data and premium in-force data in electronic file format for certain amounts reported in Schedule P and for the amount reported for unearned premiums at December 31, 1999. The total of the data files provided the Examiners did not always agree with the amounts reported in the statutory annual statement.

**It is again recommend that the Company retain or be able to create detailed supporting documentation for all amounts reported in the statutory annual statement.**

The Company did not record reinsurance premiums incurred under contract C176 for the period from December 1996 through July 1998. The 1996 premium for this period was \$904,079 and the 1997 premium was \$2,336,746. These premiums were recorded in the general ledger in 1998 and were incorrectly reported in the "Statement of Income" section of the Underwriting and Investment Exhibit (page 4) of the 1998 Annual Statement. The 1996 premiums and a portion of the 1997 premiums represented prior period adjustments that should have been reported as a write-in item in the "Capital and Surplus Account" rather than in the current year operating statement.

**It is recommended that the Company report corrections of prior period errors with an appropriate identifying title as a write-in item for gains and losses in the Capital and**

**Surplus Account on page 4 of the statutory annual statement.**

The reinsurance premium for contract C176 is computed at the rate of 35% of applicable earned premium subject to a minimum premium of \$1,666,667. The Company did not consider the minimum premium when determining the final premiums for calendar years 1998 and 1999. Consequently, reinsurance premiums in the aggregate were understated approximately \$200,000 for those years.

**It is recommended that the Company correct the understatement of 1998 and 1999 reinsurance premiums and in the future include the minimum premium component when computing the final adjusted premium for reinsurance agreement C176.**

## **FINANCIAL STATEMENTS**

The following pages present the Company's financial statements as of December 31, 1999, and an analysis of examination changes in the following order:

- Statement of Assets, Liabilities, Surplus and Other Funds, December 31, 1999
- Underwriting and Investment Exhibit, Year Ended December 31, 1999
- Reconciliation of Capital and Surplus, January 1, 1995 through December 31, 1999
- Analysis of Examination Changes

**General Indemnity Insurance Company**  
**Statement of Assets, Liabilities, Surplus, and Other Funds**  
**as of December 31, 1999**

	<b>Ledger Assets</b>	<b>Non-Ledger Assets</b>	<b>Assets Not Admitted</b>	<b>Net Admitted Assets</b>
Bonds	\$33,385,532			\$33,385,532
Cash	19,939			19,939
Short-term investments	8,481,861			8,481,861
Agent's balances or uncollected premiums:				
Premiums and agents' balances in course of collection	659,413	\$112,116	\$344,916	426,613
Premiums, agents' balance, and installments booked but deferred and not yet due	409,323			409,323
Funds held by or deposited with reinsured companies	100,000			100,000
Reinsurance recoverables on loss and loss adjustment expense payments	1,372,835			1,372,835
Interest, dividends, and real estate income due and accrued		436,013		436,013
Receivable from parent, subsidiaries, and affiliates	4,705,516			4,705,516
Totals	<u>\$49,134,419</u>	<u>\$548,129</u>	<u>\$344,916</u>	<u>\$49,337,632</u>

**Genesis Indemnity Insurance Company**  
**Statement of Assets, Liabilities, Surplus, and Other Funds**  
**as of December 31, 1999**

Losses		\$ 5,501,758
Loss adjustment expenses		986,788
Unearned premiums		3,263,508
Excess of statutory reserves over statement reserves		210,000
Payable to parent, subsidiaries, and affiliates		957,766
Payable for securities		3,563
Miscellaneous write-ins		<u>5</u>
 Total Liabilities		 \$10,923,388
 Common capital stock	\$ 4,100,000	
Gross paid in and contributed surplus	20,900,000	
Unassigned funds (surplus)	<u>13,414,244</u>	
 Surplus as regards policyholders		 <u>38,414,244</u>
 Total		 <u><u>\$49,337,632</u></u>

**Genesis Indemnity Insurance Company  
Underwriting and Investment Exhibit  
for the Year Ended December 31, 1999**

**Underwriting Income**

Premiums earned		\$ 1,762,056
Deductions:		
Losses incurred	\$2,624,367	
Loss expenses incurred	310,264	
Other underwriting expenses incurred	278,061	
Total Underwriting Deductions		3,212,692
Net Underwriting Gain or (Loss)		\$(1,450,636)

**Investment Income**

Net investment income earned	\$2,494,679	
Net investment gain or (loss)		2,494,679

**Other Income**

Net gain or (loss) from agents' or premium balances charged off		(8,434)
Net income before federal income taxes		\$ 1,035,609
Federal income taxes incurred		310,836
Net income		\$ 724,773

## Genesis Indemnity Insurance Company Reconciliation of Capital and Surplus Account

	December 31				
	1999	1998	1997	1996	1995
Capital and surplus, December 31, previous year	\$37,956,148	\$34,734,479	\$34,698,684	\$35,161,001	\$32,949,740
Net income	724,773	3,104,908	3,815,663	3,079,783	2,140,261
Change in non-admitted assets	(230,677)	(114,239)			
Change in excess of statutory reserves over statement reserves	(36,000)	231,000	(310,000)	(26,000)	71,000
Dividends to stockholders			(3,469,868)	(3,516,100)	
Net change in capital and surplus for the year	\$ 458,096	\$ 3,221,669	\$ 35,795	\$ (462,317)	\$ 2,211,261
Capital and surplus, December 31, current year	\$38,414,244	\$37,956,148	\$34,734,479	\$34,698,684	\$35,161,001

## Analysis of Examination Changes

Description	Annual Statement	Per Examination	Surplus Change	
			Increase	Decrease
<u>Assets</u>				
Premiums and agents' balances in course of collection	\$ 314,497	\$ 426,613	\$112,116	
<u>Liabilities</u>				
Unearned premiums	2,278,075	3,263,508		\$(985,433)
Total Examination Changes			\$112,116	\$(985,433)
Capital and Surplus Per Annual Statement		\$39,287,561		
Capital and Surplus Per Examination		38,414,244		
Decrease Per Examination		\$ (873,317)		

## **COMMENTS TO THE FINANCIAL STATEMENTS**

### **Agents' Balances**

In the fourth quarter of 1999, the Company recorded a duplicate entry to reinsurance premiums ceded. The entry had the effect of overstating 1999 premiums ceded and reinsurance ceding commissions. The Examiner established a \$283,899 receivable to adjust for the duplicate entry to reinsurance premiums ceded.

The Examiners also established a \$625,000 receivable related to the overpayment of 1999 premiums for reinsurance agreement number C176.

The Examiners non-admitted the \$796,783 unapplied cash component of agents' balances due to inadequate supporting documentation for that balance.

The net increase in this account was \$112,116.

### **Losses and Loss Adjustment Expenses**

An independent evaluation of the loss and loss adjustment expense reserves established by the Company as of December 31, 1999, was performed by an actuary employed by the North Dakota Insurance Department. The conclusion set forth by the Department's actuary is based on a review of the methods used by the Company's Actuarial Department and additional analysis performed by the Department's actuary. All of the Company's lines of business were tested.

Upon reviewing all projections made of the Company's reserves for unpaid losses and LAE as of December 31, 1999, it was determined that the reserves as reported by the Company in its 1999 Annual Statement are within an acceptable range of possible outcomes. Consequently, the reserves reported by the Company have been accepted for the purpose of this examination.

### **Unearned Premiums**

Certain policies issued by the Company contain a retrospective rating feature. In preparing its statutory annual statement, the Company inadvertently omitted a \$985,433 accrual for retrospective credit adjustments at December 31, 1999.

In accordance with NAIC guidelines, the Examiners increased the December 31, 1999, liability for unearned premiums by the \$985,433 accrual for retrospective credit adjustments.

## CONCLUSION

The financial condition of the Company, as of December 31, 1999, as determined by this examination is summarized as follows:

Admitted Assets	<u>\$49,337,632</u>
Total Liabilities	\$10,923,388
Surplus as Regards Policyholders	<u>38,414,244</u>
Liabilities, Surplus, and Other Funds	<u>\$49,337,632</u>

Since the last examination conducted as of December 31, 1994, the Company's admitted assets have increased \$11,032,033, its total liabilities have increased \$5,567,529, and its surplus as regards policyholders has increased \$5,464,504.

In addition to the undersigned, Tom Bowman, CPA, and Mike Andring, ACAS, of the North Dakota Insurance Department participated in this examination.

Respectfully submitted,

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David Weiss, CFE  
Examiner  
North Dakota Insurance Department



## **COMMENTS AND RECOMMENDATIONS**

It is recommended that the Company submit proposed reinsurance agreements with affiliates to the Commissioner at least 30 days prior to entering into such agreements in compliance with N.D. Cent. Code § 26.1-10-05(2).

It is recommended that the Company properly disclose direct premiums written through third-party administrators in the Notes to the Financial Statements.

It is again recommended that the Company and its affiliates establish procedures to insure that the reinsurance balances and transactions reported by the Company in Schedule F agree with the amounts reported by affiliates.

It is again recommend that the Company retain or be able to create detailed supporting documentation for all amounts reported in the statutory annual statement.

It is recommended that the Company report corrections of prior period errors with an appropriate identifying title as a write-in item for gains and losses in the Capital and Surplus Account on page 4 of the statutory annual statement.

It is recommended that the Company correct the understatement of 1998 and 1999 reinsurance premiums and in the future include the minimum premium component when computing the final adjusted premium for reinsurance agreement C176.